

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Sarah Baartman District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the Sarah Baartman District Municipality and its municipal entity set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and appropriation statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Sarah Baartman District Municipality and its municipal entity as at 30 June 2016 and their financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Impairment loss

8. Receivables from exchange transactions disclosed in note 4 to the financial statements and receivables from non-exchange transactions disclosed in note 5 to the financial statements were impaired by R155 789 (2015: R104 313) and R1 million (2015: R9 million), respectively.

Restatement of corresponding figures

9. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered by management during the 2015-16 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Irregular expenditure

10. As disclosed in note 42 to the financial statements, the municipality incurred irregular expenditure of R1,4 million (2015: R3,3 million) during the year as a result of contravening supply chain management prescripts. The municipality did receive goods and services for these payments.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Development priority 1: infrastructure investment on page xx to xx
 - Development priority 3: economic development on page xx to xx
 - Development priority 4: community and social services on page xx to xx
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected development priorities are as follows:

Development priority 1: infrastructure investment

Usefulness of reported performance information

19. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance as well as to be measurable. A total of 25% of the targets were not measurable and not well defined. This was due to inadequate planning by the municipality, as they did not have processes in place to ensure that they receive inputs on time from the local municipalities to facilitate better planning.

Reliability of reported performance information

20. I did not raise any material findings on the reliability of the reported performance information.

Development priority 3: economic development

Usefulness of reported performance information

21. The FMPP requires performance targets to be specific in clearly identifying the nature and required level of performance as well as to be measurable. A total of 33% of the targets were not measurable and not well defined. This was due to inadequate planning by the municipality, as they did not have processes in place to ensure that they receive inputs on time from the local municipalities to facilitate better planning.

Reliability of reported performance information

22. I did not raise any material findings on the reliability of the reported performance information.

Development priority 4: community and social services

23. I did not raise any material findings on the usefulness and reliability of the reported performance information.

Additional matters

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraphs 19 and 21 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of development priority 1: infrastructure investment, development priority 3: economic development, and development priority 4: community and social services. As management subsequently corrected the misstatements, I did not raise any material findings on the reliability of the reported performance information.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material finding on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, is as follows:

Expenditure management

28. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

30. The leadership did not exercise oversight responsibility regarding performance reporting and compliance, as material findings were raised on performance information and compliance with legislation. The leadership did not adequately review the annual performance report, as material misstatements were identified. These were subsequently corrected.

Financial and performance management

31. The monitoring and evaluation unit did not ensure that all of the planned targets in the service delivery and budget implementation plan were specific, measurable and well defined, due to inadequate planning. As a result, not all inputs had been considered during the planning phase.
32. Management did not adequately monitor internal controls to prevent irregular expenditure throughout the financial year. Management did also not ensure that supply chain management prescripts were adhered to.

Other reports

33. I draw attention to the following engagement that could potentially have an impact on the municipality's financial, performance and compliance-related matters. My opinion is not modified in respect of this engagement that is in progress.

Investigations

34. An organ of the state is performing investigations at the request of the municipality. These investigations relates to an alleged payments by the municipality in the incorrect supplier's bank account, destruction of a property by employees from unprotected strike and a translation service which was provided by employee's close family member to the municipality. These investigations are still ongoing.

Auditor General

East London

30 November 2016



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